

INVESTMENT ADVISER

CAPITAL GROWTH MANAGEMENT
LIMITED PARTNERSHIP
Boston, Massachusetts 02110

TRANSFER AND DIVIDEND PAYING AGENT AND CUSTODIAN OF ASSETS

STATE STREET BANK AND TRUST COMPANY
Boston, Massachusetts 02111

SHAREHOLDER SERVICING AGENT FOR STATE STREET BANK AND TRUST COMPANY

BOSTON FINANCIAL DATA SERVICES, INC.
P.O. Box 8511
Boston, Massachusetts 02266-8511

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Boston, MA 02266-8511

CGM Mutual Fund

77th Annual Report
December 31, 2006

A No-Load Fund

This report has been prepared for the shareholders of the Fund and is not authorized for distribution to current or prospective investors in the Fund unless it is accompanied or preceded by a prospectus.

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Printed in U.S.A.



Investment Adviser

Capital Growth Management
Limited Partnership

To Our Shareholders:

CGM Mutual Fund increased 3.1% during the fourth quarter of 2006 compared to the unmanaged Standard and Poor's 500 Index which returned 6.7% and the Merrill Lynch Master Bond Index which grew 1.2%. For the year just ended, CGM Mutual Fund returned 5.5%, the unmanaged S&P 500 Index increased 15.8% and the Merrill Lynch Master Bond Index returned 4.3%.

The Year in Review and Economic Outlook

2006 was another year of economic expansion with November marking the fifth anniversary of the start of the current growth cycle. The year took off with a bang with real Gross Domestic Product jumping by 5.6% (annualized) in the first quarter, but GDP growth slowed significantly to a 2.0% rate (annualized) by the third quarter. Two sectors were largely responsible for putting on the economic brakes: First, the American auto industry continues to lose market share and is increasingly forced to cut back in order to compete with foreign brands. Second, after four years of booming business and unsustainably spiraling prices, in our view, the homebuilding industry is feeling the pinch, curiously though, in spite of low unemployment and relatively low interest rates. Downturns in these two major industries notwithstanding, the US economy added 140,000 jobs per month in 2006 with the largest gains coming in the health and service sectors.

The Federal Reserve Board ratcheted up the Federal Funds rate from 1% in June of 2004 to 5.25% in June of 2006 in an attempt to slow the economy and ward off inflation. We believe the Fed's plan seems to be working since core inflation (ex food and energy) clocked in at a growth rate of 2.2% (annualized) over the past three months, down from 3.5% (annualized) in July. Four consecutive meetings of the Fed have come and gone since its last rate hike and the long term (ten-year) treasury yield has declined from 5.1% in June 2006 to 4.7% at year end. We are still experiencing the "inverted yield curve," we described in our last report and, though this state of affairs when short-term interest rates exceed long-term interest rates is often considered a harbinger of recession, we believe otherwise. Vital signs, most notably the strength of employment numbers, a recovery in Consumer Confidence and the fact that weakness in the housing industry hasn't spread to other businesses, in our opinion, point to continued growth at a modest rate.

From January 3, 2006 until early May of 2006, the US equity market as measured by the S&P 500 Index rose 6% from 1,248 to 1,325. The S&P dropped 7.5% to 1,225 in mid-June and then, gradually climbed 16% exclusive of dividends over the remaining months to 1,418 at year end. Given year-end profit levels, the S&P 500 Index was priced about 16 times earnings of the Index at the end of 2006, which seems to us quite rea-

sonable in light of current inflation and long term interest rates.

Portfolio Strategy

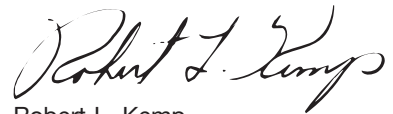
In 2006, the equity position of CGM Mutual Fund ranged between 60% and 73% of the Fund's total net assets, which reflected our belief in continued worldwide economic growth.

A significant portion of the Fund's equity portfolio during 2006 was invested in energy-related securities, which represented 16% of total Fund net assets on December 31, 2005 and grew to 36% of total Fund net assets on June 30, 2006 through a combination of purchases and stock appreciation. We maintained that position in anticipation of continued increases in oil and gas prices. Indeed, the price of oil rose from \$60 per barrel in January 2006 to \$78 a barrel in July, but then, fell abruptly to under \$60 in September. The value of the portfolio's energy-related stocks declined significantly along with the cost of oil and the position was reduced to 15.6% of total Fund net assets at the end of September and to 10% by year end. As a result, the Fund underperformed the unmanaged Standard and Poor's 500 Index by 9.6% during the third quarter of the year which had a significant negative impact on the Fund's overall 2006 performance.

During 2006, CGM Mutual Fund also owned a number of metals and mining stocks which generated modest gains. Additionally, we established a position in brokerage and investment bankers during the second half of the year which represented 20% of the Fund's total net assets at year end.

The Fund's fixed income component ranged from 27% to 40% of total net assets throughout the year and was invested exclusively in U.S. Treasury Bills.

At year end, CGM Mutual Fund's fixed income exposure was 27% of total net assets. In the equity portion of the portfolio on December 31, 2006, the three largest positions were in the brokerage and investment services, oil service and money center banking industries. The Fund's three largest holdings were The Goldman Sachs Group, Inc., Morgan Stanley and Deere & Company.



Robert L. Kemp
President

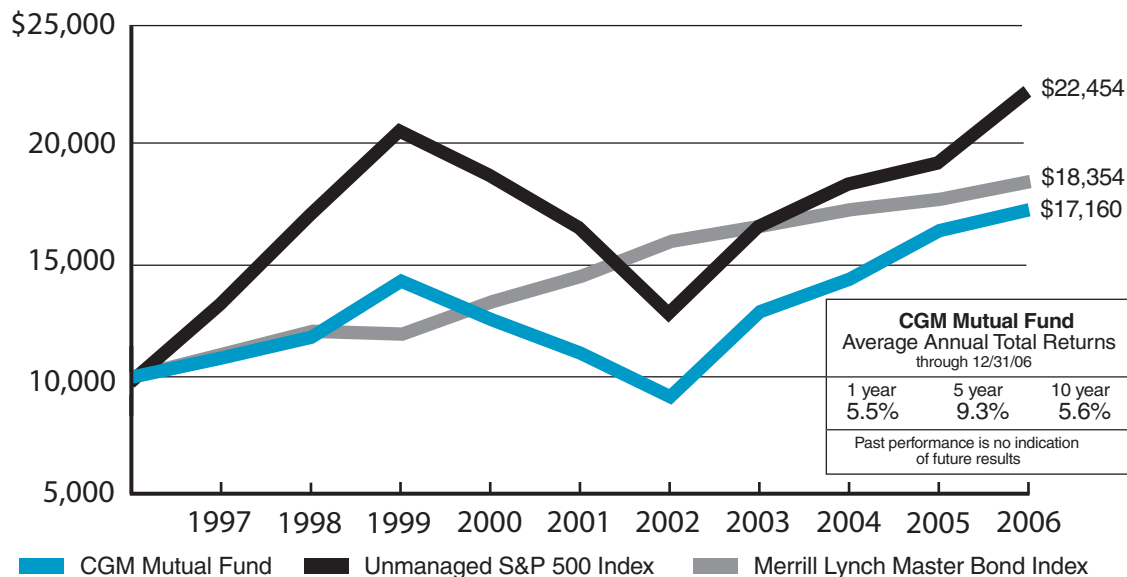


G. Kenneth Heebner
Portfolio Manager

January 3, 2007

Comparisons of Change in Value of \$10,000 Investment in CGM Mutual Fund, the Unmanaged S&P 500 Index, and the Merrill Lynch Master Bond Index

assuming reinvestment of dividends and capital gains



CGM MUTUAL FUND Portfolio Manager

G. Kenneth Heebner has managed CGM Mutual Fund since 1981. In 1990, Mr. Heebner founded Capital Growth Management Limited Partnership with Robert L. Kemp. Prior to establishing the new company, Mr. Heebner was at Loomis, Sayles and Company where he managed the Fund, then known as Loomis-Sayles Mutual Fund. In addition to CGM Mutual Fund, Mr. Heebner currently manages CGM Capital Development Fund, CGM Realty Fund and CGM Focus Fund.

See the Schedule of Investments on pages 3 and 4 for the percentage of net assets of the Fund invested in particular industries or securities as of December 31, 2006.

INVESTMENT PERFORMANCE

(unaudited)

Cumulative Total Return for Periods Ended December 31, 2006

	CGM Mutual Fund
10 Years	+71.7%
5 Years	+55.8
1 Year	+ 5.5
3 Months	+ 3.1

The performance data contained in the report represent past performance, which is no guarantee of future results. The graph and table above do not reflect the deduction of taxes a shareholder would pay on Fund distributions or the redemption of Fund shares and assume the reinvestment of all Fund distributions. The investment return and the principal value of an investment in the Fund will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Commencing July 1, 2003 and ending June 30, 2004, Capital Growth Management agreed to voluntarily waive a portion of the management fee, lowering the annual rate to 0.72% of the Fund's average daily net assets. Otherwise, the total return for the 10- and 5-year periods ended December 31, 2006 would have been lower.

CGM MUTUAL FUND

INVESTMENTS as of December 31, 2006

COMMON STOCKS — 72.9% OF TOTAL NET ASSETS

	<u>Shares</u>	<u>Value(a)</u>
Airlines — 2.2%		
Gol Linhas Aéreas Inteligentes S.A. ADR (b)	380,000	\$ 10,894,600
Banks – Money Center — 7.5%		
Bank of America Corporation	480,000	25,627,200
Citigroup Inc.	220,000	12,254,000
		<u>37,881,200</u>
Brokerage/Investment Services — 20.2%		
Lehman Brothers Holdings Inc.	225,000	17,577,000
Merrill Lynch & Co., Inc.	285,000	26,533,500
Morgan Stanley	345,000	28,093,350
The Goldman Sachs Group, Inc.	150,000	29,902,500
		<u>102,106,350</u>
Business Services — 5.3%		
CB Richard Ellis Group, Inc. (c)	810,000	26,892,000
Drugs — 4.4%		
Allergan, Inc.	185,000	22,151,900
Financial Services — 5.5%		
MasterCard Incorporated	280,000	27,577,200
Heavy Capital Goods — 2.9%		
Cummins, Inc.	125,000	14,772,500
Machinery — 5.6%		
Deere & Company	295,000	28,045,650
Metals and Mining — 4.0%		
Companhia Vale Do Rio Doce ADR (b)	680,000	20,223,200
Miscellaneous — 2.6%		
Nike, Inc.	134,000	13,270,020
Offshore Drilling — 1.1%		
Transocean, Inc. (c)	67,000	5,419,630
Oil Service — 8.9%		
Baker Hughes Incorporated	320,000	23,891,200
Schlumberger Limited	335,000	21,158,600
		<u>45,049,800</u>
Telephone — 2.7%		
AT&T, Inc.	380,000	13,585,000
TOTAL COMMON STOCKS (Identified Cost \$348,013,357)		<u>367,869,050</u>

See accompanying notes to financial statements.

CGM MUTUAL FUND

INVESTMENTS as of December 31, 2006 (continued)

BILLS — 26.7% OF TOTAL NET ASSETS

	<u>Face Amount</u>	<u>Value(a)</u>
United States Treasury — 26.7%		
United States Treasury Bills, 3.592%, 01/04/07	\$20,000,000	\$ 19,992,033
United States Treasury Bills, 3.646%, 01/04/07	5,500,000	5,497,773
United States Treasury Bills, 4.638%, 03/01/07	23,400,000	23,220,522
United States Treasury Bills, 4.684%, 03/15/07	65,000,000	64,380,160
United States Treasury Bills, 4.788%, 01/25/07	5,000,000	4,983,433
United States Treasury Bills, 4.839%, 02/08/07	4,000,000	3,979,142
United States Treasury Bills, 4.842%, 02/22/07	7,500,000	7,446,917
United States Treasury Bills, 4.863%, 02/15/07	5,500,000	5,466,037
TOTAL BILLS (Identified Cost \$134,947,222)		<u>134,966,017</u>

SHORT-TERM INVESTMENT — 0.4% OF TOTAL NET ASSETS

American Express Credit Corporation, 5.26%, 01/02/07 (Cost \$1,920,000)	1,920,000	<u>1,920,000</u>
TOTAL INVESTMENTS — 100.0% (Identified Cost \$484,880,579)		504,755,067
Cash and receivables		13,187,989
Liabilities		<u>(13,368,822)</u>
TOTAL NET ASSETS — 100.0%		<u><u>\$504,574,234</u></u>

(a) See Note 1A.

(b) An American Depositary Receipt (ADR) is a certificate issued by a U.S. bank representing the right to receive securities of the foreign issuer described. The values of ADRs are significantly influenced by trading on exchanges not located in the United States or Canada.

(c) Non-income producing security.

See accompanying notes to financial statements.

CGM MUTUAL FUND

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2006

Assets		
Investments at value (Identified cost \$484,880,579)		\$504,755,067
Cash		3,033
Receivable for:		
Securities sold	\$12,952,087	
Shares of the Fund sold	14,270	
Dividends and interest	218,599	13,184,956
Total assets		<u>517,943,056</u>
Liabilities		
Payable for:		
Securities purchased	12,315,358	
Shares of the Fund redeemed	497,879	
Distributions declared	(2,639)	12,810,598
Accrued expenses:		
Management fees	387,749	
Trustees' fees	12,184	
Accounting, Administration and Compliance expenses	7,873	
Transfer agent fees	80,861	
Other expenses	69,557	558,224
Total liabilities		<u>13,368,822</u>
Net Assets		<u>\$504,574,234</u>
Net Assets consist of:		
Capital paid-in		\$484,699,746
Net unrealized appreciation on investments		19,874,488
Net Assets		<u>\$504,574,234</u>
Shares of beneficial interest outstanding, no par value		<u>18,162,578</u>
Net asset value per share*		<u>\$27.78</u>

*Shares of the Fund are sold and redeemed at net asset value (\$504,574,234 ÷ 18,162,578).

See accompanying notes to financial statements.

CGM MUTUAL FUND

STATEMENT OF OPERATIONS

Year Ended December 31, 2006

Investment Income

Income:

Dividends (net of withholding tax of \$53,390)	\$ 5,514,669
Interest	8,176,297
	<u>13,690,966</u>

Expenses:

Management fees	4,676,673
Trustees' fees	57,006
Accounting, Administration and Compliance expenses	94,481
Custodian fees and expenses	105,756
Transfer agent fees	500,860
Audit and tax services	35,800
Legal	23,743
Printing	72,081
Registration fees	26,378
Miscellaneous expenses	2,614
	<u>5,595,392</u>
Net investment income	<u>8,095,574</u>

Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Transactions

Net realized gains on investments and foreign currency transactions	21,496,524
Net unrealized depreciation	(1,483,721)
Net realized and unrealized gain (loss) on investments and foreign currency transactions	<u>20,012,803</u>

Change in Net Assets from Operations \$28,108,377

See accompanying notes to financial statements.

CGM MUTUAL FUND

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2006	2005
Operations		
Net investment income	\$ 8,095,574	\$ 5,497,121
Net realized gains from investments and foreign currency transactions	21,496,524	80,829,927
Net unrealized depreciation	(1,483,721)	(17,869,171)
Change in net assets from operations	<u>28,108,377</u>	<u>68,457,877</u>
Distributions to Shareholders		
From net investment income	(7,978,514)	(5,573,344)
Net short-term realized capital gains on investments	(20,947,527)	—
Net long-term realized capital gains on investments	—	(14,846,567)
	<u>(28,926,041)</u>	<u>(20,419,911)</u>
Capital Share Transactions		
Proceeds from sale of shares	15,755,750	17,461,378
Net asset value of shares issued in connection with reinvestment of:		
Dividends from net investment income	7,057,743	4,911,392
Distributions from net short-term realized capital gains on investments	19,051,989	—
Distributions from net long-term realized capital gains on investments	—	13,467,340
	<u>41,865,482</u>	<u>35,840,110</u>
Cost of shares redeemed	(51,085,253)	(50,709,410)
Change in net assets derived from capital share transactions	<u>(9,219,771)</u>	<u>(14,869,300)</u>
Total change in net assets	<u>(10,037,435)</u>	<u>33,168,666</u>
Net Assets		
Beginning of year	<u>514,611,669</u>	<u>481,443,003</u>
End of the year	<u>\$504,574,234</u>	<u>\$514,611,669</u>
Number of shares of the Fund:		
Issued from sale of shares	540,144	638,159
Issued in connection with reinvestment of:		
Dividends from net investment income	243,191	177,340
Distributions from net short-term realized capital gains on investments	682,622	—
Distributions from net long-term realized capital gains on investments	—	482,182
	<u>1,465,957</u>	<u>1,297,681</u>
Redeemed	<u>(1,752,991)</u>	<u>(1,858,000)</u>
Net change	<u>(287,034)</u>	<u>(560,319)</u>

See accompanying notes to financial statements.

CGM MUTUAL FUND

FINANCIAL HIGHLIGHTS

	Year Ended December 31,				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
For a share of the Fund outstanding throughout each period:					
Net asset value at the beginning of period	\$27.89	\$25.33	\$23.00	\$16.65	\$20.47
Net investment income(a)(b)	0.45	0.30	0.16	0.23	0.26
Net realized and unrealized gain (loss) on investments and foreign currency transactions	1.09	3.40	2.33	6.35	(3.67)
Total from investment operations	<u>1.54</u>	<u>3.70</u>	<u>2.49</u>	<u>6.58</u>	<u>(3.41)</u>
Dividends from net investment income	(0.45)	(0.31)	(0.16)	(0.23)	(0.41)
Distribution from net short-term realized gains	(1.20)	—	—	—	—
Distribution from net long-term realized gains	—	(0.83)	—	—	—
Total Distributions	<u>(1.65)</u>	<u>(1.14)</u>	<u>(0.16)</u>	<u>(0.23)</u>	<u>(0.41)</u>
Net increase (decrease) in net asset value	<u>(0.11)</u>	<u>2.56</u>	<u>2.33</u>	<u>6.35</u>	<u>(3.82)</u>
Net asset value at end of period	<u>\$27.78</u>	<u>\$27.89</u>	<u>\$25.33</u>	<u>\$23.00</u>	<u>\$16.65</u>
Total Return (%)	5.5	14.6	10.9(c)	39.7(c)	(16.9)
Ratios:					
Operating expenses to average net assets (%)	1.07	1.09	1.02	1.07	1.14
Operating expenses to average net assets before management fee waiver (%)	N/A	N/A	1.11	1.17	N/A
Net investment income to average net assets (%)	1.55	1.09	0.68	1.23	1.30
Portfolio turnover (%)	504	336	314	260	191
Net assets at end of period (in thousands) (\$)	504,574	514,612	481,443	477,147	376,089
(a) Net of management fee waiver which amounted to (\$) ..	N/A	N/A	0.02	0.02	N/A
(b) Per share net investment income has been calculated using the average shares outstanding during the period.					
(c) The total return would have been lower had the management fee not been reduced during the period.					

See accompanying notes to financial statements.

CGM MUTUAL FUND

NOTES TO FINANCIAL STATEMENTS — December 31, 2006

1. The Fund is a diversified series of CGM Trust which is organized as a Massachusetts business trust under the laws of Massachusetts pursuant to an Agreement and Declaration of Trust. The Trust is registered under the Investment Company Act of 1940 as an open-end management investment company. The Trust has two other Funds whose financial statements are not presented herein. Along with one other fund in a separate Trust, there are four CGM Funds. The Fund commenced operations on November 5, 1929. The Fund's objective is reasonable long-term capital appreciation with a prudent approach to protection of capital from undue risks. Current income is a consideration in the selection of the Fund's portfolio securities, but it is not a controlling factor.

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

- A. Security valuation** — Equity securities are valued on the basis of valuations furnished by a pricing service, authorized by the Board of Trustees. The pricing service provides the last reported sale price for securities listed on a national securities exchange or in the case of the NASDAQ national market system, the NASDAQ official closing price. For securities with no sale reported and in the case of over-the-counter securities not so listed, the last reported bid price is used. Corporate debt securities are valued on the basis of valuations furnished by a pricing service, authorized by the Board of Trustees, which determines valuations for normal, institutional-size trading units of such securities using market information, transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders. United States government debt securities are valued at the current closing bid, as last reported by a pricing service approved by the Board of Trustees. Short-term investments having a maturity of sixty days or less are stated at amortized cost, which approximates value. Other assets and securities which are not readily marketable will be valued in good faith at fair value using methods determined by the Board of Trustees.
- B. Security transactions and related investment income** — Security transactions are accounted for on the trade date (date the order to buy or sell is executed) and dividend income is recorded on the ex-dividend date net of applicable foreign taxes. Interest income is recorded on an accrual basis and includes amortization of premium and discount. Net gain or loss on securities sold is determined on the identified cost basis. Dividend payments received by the Fund from its investment in REITs may be comprised of ordinary income, capital gains, and return of capital and as such are recorded as dividend income, capital gains or a reduction to security cost, as appropriate.
- C. Federal income taxes** — It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies, and to distribute to its shareholders all of its taxable income and net realized capital gains, within the prescribed time period. Accordingly, no provision for federal income tax has been made. At December 31, 2006, there were no capital loss carryovers available to offset future realized gains.

CGM MUTUAL FUND

NOTES TO FINANCIAL STATEMENTS (continued)

As of December 31, 2006, the components of distributable earnings on a tax basis were as follows:

<u>Undistributed Ordinary Income</u>	<u>Undistributed Long-term Capital Gains</u>	<u>Net Unrealized Appreciation/(Depreciation)</u>
\$—	\$—	\$19,874,488

The identified cost of investments in securities owned by the Fund for federal income tax purposes, and their respective gross unrealized appreciation and depreciation at December 31, 2006 was as follows:

<u>Identified Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Appreciation</u>
\$484,880,579	\$23,178,962	\$(3,304,474)	\$19,874,488

- D. Dividends and distributions to shareholders** — Dividends and distributions are recorded by the Fund on the ex-dividend date. The classification of income and capital gains distributions is determined in accordance with income tax regulations. Distributions from net investment income and short-term capital gains are treated as ordinary income for income tax purposes. Permanent book and tax differences relating to shareholder distributions may result in reclassifications to paid-in capital. These differences are primarily related to foreign exchange gain/loss. The Fund also utilized earnings and profits distributed to shareholders on redemption of shares as a part of the dividend deduction for income tax purposes. Undistributed net investment income or accumulated net investment loss may include temporary book and tax differences such as tax deferral of losses on wash sales, which will reverse in a subsequent period. Any taxable income or gain remaining at fiscal year end is distributed in the following year.

The tax character of distributions paid during the period ended December 31, 2006, was as follows:

<u>Ordinary Income</u>	<u>Long-term Capital Gains</u>	<u>Total</u>
\$28,926,041	\$—	\$28,926,041

- E. Foreign currency translation** — All assets and liabilities initially expressed in terms of foreign currencies are translated into U.S. dollars. Transactions affecting statement of operations accounts and net realized gain/(loss) on investments are translated at the rates prevailing at the dates of the transactions. The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments. Reported net realized foreign exchange gains or losses arise from sales of foreign currency, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains or losses arise from changes in the value of assets and liabilities other than investments in securities at the end of the period, resulting from changes in the exchange rate.
- F. Indemnities** — In the normal course of business, CGM Mutual Fund may enter into contracts that provide indemnities to third parties for various potential losses and claims. CGM Mutual Fund's maximum exposure under these arrangements is unknown as this would depend on future claims that may be made against CGM Mutual Fund. The risk of material loss from such claims is considered remote.

NOTES TO FINANCIAL STATEMENTS (continued)

- 2. Foreign investment risk** — There are certain additional risks involved in investing in foreign securities that are not inherent in investments in domestic securities. These risks may involve adverse political and economic developments and the possible imposition of currency exchange blockages or other foreign governmental laws or restrictions. In addition, the securities of some foreign companies and securities markets are less liquid and at times more volatile than securities of comparable U.S. companies and U.S. securities markets.
- 3. Purchases and sales of securities** — For the period ended December 31, 2006, purchases and sales of securities other than United States government obligations and short-term investments aggregated \$1,763,242,358 and \$1,761,136,068, respectively. There were no purchases or sales of long-term United States government obligations.
- 4. A. Management fees** — During the period ended December 31, 2006, the Fund incurred management fees of \$4,676,673, paid or payable to the Fund's investment adviser, Capital Growth Management Limited Partnership (CGM), certain officers and directors of which are also officers and trustees of the Fund. The management agreement provides for a fee at the annual rate of 0.90% on the first \$500 million of the Fund's average daily net assets, 0.80% of the next \$500 million and 0.75% of such assets in excess of \$1 billion.
- B. Other expenses** — CGM performs certain administrative, accounting, compliance and other services for the Fund. The expenses of those services, which were paid to CGM by the Fund, include the following: (i) expenses for personnel performing bookkeeping, accounting and financial reporting functions and clerical functions relating to the Fund; (ii) expenses for services required in connection with the preparation of registration statements and prospectuses, shareholder reports and notices, proxy solicitation material furnished to shareholders of the Fund or regulatory authorities and reports and questionnaires for SEC compliance; (iii) registration, filing and other fees in connection with requirements of regulatory authorities and (iv) compliance in connection to the Investment Company Act of 1940 and the Sarbanes Oxley Act of 2002. The Accounting, Administration and Compliance expense of \$94,481, for the period ended December 31, 2006, is shown separately in the financial statements. These expenses include the reimbursement of a portion of the compensation expenses incurred by CGM for its employees who provide these administrative, accounting, compliance, and other services to the Fund, some of whom are officers of the Fund. Of the total expense reimbursement, \$73,580 represented reimbursements by the Fund to CGM for a portion of the salaries of CGM employees who are officers of the Fund.
- C. Trustees fees and expenses** — The Fund does not pay any compensation directly to any trustees who are directors, officers or employees of CGM, or any affiliate of CGM (other than registered investment companies). For the period ended December 31, 2006, each disinterested trustee was compensated by the CGM Funds with an annual fee of \$50,000 plus travel expenses for each meeting attended. The disinterested trustees are responsible for the audit committee functions of the CGM Funds and have designated a chairman to oversee those functions who receives an additional \$30,000 annually. Of these amounts, each of the CGM Funds is responsible for \$7,000 per trustee annually, plus an annual variable fee calculated based on the proportion of each of the CGM Funds' average net assets relative to the aggregate average net assets of the CGM Funds.

CGM MUTUAL FUND

NOTES TO FINANCIAL STATEMENTS (continued)

5. Other — On July 13, 2006 the Financial Accounting Standards Board (FASB) released FASB Interpretation No. 48 “Accounting for Uncertainty in Income Taxes” (FIN48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the fund’s tax returns to determine whether the tax positions are “more likely than not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required for the first financial statement reporting period after June 29, 2007 and is to be applied to all open tax years as of the effective date. At this time, management is evaluating the implications of FIN 48 and its impact on the financial statements, if any, has not yet been determined.

CGM MUTUAL FUND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees of CGM Trust and Shareholders of CGM Mutual Fund:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of CGM Mutual Fund (the “Fund,” a series of CGM Trust) at December 31, 2006, the results of its operations, the changes in its net assets and the financial highlights for the periods indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2006 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Boston, Massachusetts
February 14, 2007

ADDITIONAL INFORMATION

(unaudited)

Availability of Proxy Voting Information:

Proxy voting policies and information regarding how the Fund voted proxies relating to portfolio securities during the twelve month period ended June 30, 2006 are available without charge, upon request by calling 1-800-345-3048. The policies also appear in the Fund's Statement of Additional Information, which can be found on the SEC's website, <http://www.sec.gov>. The voting records can also be found on the SEC's website on the N-PX filing.

Portfolio Holdings:

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

CGM MUTUAL FUND

FUND EXPENSES

As a shareholder of CGM Mutual Fund, you incur two types of costs: (1) transaction costs, which could include, among other charges, wire fees and custodial maintenance fees for certain types of accounts and (2) ongoing costs, including management fees and other Fund expenses. This Example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

The Example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period July 1, 2006 to December 31, 2006.

Actual Return and Expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled “Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs such as any wire fees or custodial maintenance fees that may be payable. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

	<i>Beginning Account Value 7/01/06</i>	<i>Ending Account Value 12/31/06</i>	<i>Expenses Paid During Period* 7/01/06 – 12/31/06</i>
Actual	\$1,000.00	\$990.37	\$5.37
Hypothetical (5% return before expenses)	\$1,000.00	\$1,019.81	\$5.45

* Expenses are equal to the Fund’s annualized expense ratio of 1.07%, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).

CGM MUTUAL FUND

25 YEAR INVESTMENT RECORD DECEMBER 31, 1981 — DECEMBER 31, 2006 (unaudited)

IF YOU HAD PURCHASED ONE SHARE OF THE FUND ON DECEMBER 31, 1981

On December 31	— AND HAD TAKEN ALL DIVIDENDS AND DISTRIBUTIONS IN CASH			OR — HAD REINVESTED ALL DIVIDENDS AND CAPITAL GAINS DISTRIBUTIONS IN ADDITIONAL SHARES		
	The Net Asset Value of Your Shares Would Have Been	During the Year You Would Have Received		The Value of Your Original Investment At Each Year End Would Have Been	Which Would Represent	
		Per Share Capital Gains Distributions of	Per Share Income Distributions of		An Annual Total Return of	A Cumulative Change Expressed As An Index With December 31, 1981 = 100.0
1981	\$13.90	—	—	—	—	100.0
1982	18.16	—	\$ 1.09	\$ 19.60	+ 41.0%	141.0
1983	18.81	—	1.09	21.54	+ 9.9	155.0
1984	17.01	\$ 1.86	0.95	22.90	+ 6.3	164.8
1985	21.53	—	1.08	30.80	+ 34.5	221.7
1986	22.86	2.75	0.94	38.53	+ 25.1	277.3
1987	20.40	4.52	1.06	43.81	+ 13.7	315.3
1988	19.94	—	1.10	45.21	+ 3.2	325.4
1989	22.34	0.95	0.93	55.02	+ 21.7	396.0
1990	21.64	—	0.93*	55.63	+ 1.1	400.4
1991	26.80	2.64	0.97	78.38	+ 40.9	564.2
1992	26.02	1.42	0.93	83.16	+ 6.1	598.6
1993	28.88	1.93	0.86	101.29	+ 21.8	729.1
1994	25.05	—	1.04	91.46	— 9.7	658.4
1995	29.43	0.89	0.77	113.68	+ 24.3	818.4
1996	31.42	4.15	0.74	140.62	+ 23.7	1012.4
1997	25.52	7.81	0.67	152.15	+ 8.2	1095.4
1998	26.36	0.25	0.98	164.63	+ 8.2	1185.2
1999	27.28	3.54	0.84	198.38	+ 20.5	1428.2
2000	23.38	—	0.73	175.37	— 11.6	1262.5
2001	20.47	—	0.20	155.03	— 11.6	1116.1
2002	16.65	—	0.41	128.83	— 16.9	927.5
2003	23.00	—	0.23	179.98	+ 39.7	1295.7
2004	25.33	—	0.16	199.60	+ 10.9	1436.9
2005	27.89	0.83	0.31	228.74	+ 14.6	1646.7
2006	27.78	1.20	0.45	241.32	+ 5.5	1737.3
Totals		\$34.74	\$19.46		+1637.3	

*Includes \$0.05 per share distributed from paid-in capital.

Shares were first offered on November 5, 1929; the net asset value per share, adjusted for stock splits and dividends, was \$8.33.

The performance data contained in this report represent past performance, which is no guarantee of future results. The table above does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. The investment return on, and the principal value of, an investment in the Fund fluctuate so that investors' shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance data quoted. The advisor waived \$0.02 and \$0.02 per share of management fee in 2003 and 2004, respectively. Otherwise, the annual total return for 2003 and 2004 and cumulative 25-year return would have been lower.

CGM MUTUAL FUND

TAX INFORMATION (unaudited) FOR THE TAX YEAR ENDED 12/31/2006

We are providing this information as required by the Internal Revenue Code. The amounts shown may differ from those elsewhere in this report because of differences between tax and financial reporting requirements. For the year ended December 31, 2006, the Fund designated \$43,768 as long-term capital dividends.

TRUSTEES AND OFFICERS

The Fund is supervised by the board of trustees (the “Board”) of the Trust. The Board is responsible for the general oversight of the Fund, including general supervision and review of the Fund’s investment activities. The Board, in turn, elects the officers who are responsible for administering the Fund’s day-to-day operations.

An asterisk in the table below identifies those trustees and officers who are “interested persons” of the Trust as defined in the Investment Company Act of 1940. Each trustee and officer of the Trust noted as an interested person is interested by virtue of that individual’s position with Capital Growth Management Limited Partnership (“CGM”), the Fund’s investment adviser, as described in the table below. Each trustee serves during the continued lifetime of the Trust or until he earlier dies, resigns or is removed, or if sooner, until the election and qualification of his successor. Each officer serves until his or her successor is elected or qualified or until the officer sooner dies, resigns, or is removed or becomes disqualified.

The trustees and officers of the Trust, their ages, their principal occupations during the past five years, the number of CGM Funds they oversee, and other directorships they hold are set forth below. Unless otherwise noted below, the address of each interested trustee and officer is One International Place, Boston, Massachusetts 02110. Correspondence intended for the trustees who are not “interested persons” of the Trust may be sent c/o Capital Growth Management, One International Place, Boston, Massachusetts 02110.

The Statement of Additional Information for the Fund includes additional information about Fund trustees and is available, without charge, upon request by calling the CGM Marketing Department, toll free, at 800-345-4048.

<u>Name, Address and Age</u>	<u>Position Held and Length of Time Served</u>	<u>Principal Occupation During Past 5 Years and Other Directorships Held</u>	<u>Number of Funds in the CGM Funds Complex Overseen</u>
Interested Trustees			
G. Kenneth Heebner* age 66	Trustee since 1993	Co-founder and Employee, CGM; Controlling Owner, Kenbob, Inc. (general partner of CGM)	4
Robert L. Kemp* age 74	Trustee since 1990	Co-founder and Employee, CGM; Non-voting Owner, Kenbob, Inc. (general partner of CGM)	4
Disinterested Trustees			
Peter O. Brown age 66	Trustee since 1993	Counsel (formerly, Partner), Harter, Secrest & Emery LLP (law firm); formerly Executive Vice President and Chief Operating Officer, The Glenmeade Trust Company (from 1990 to 1993); formerly Senior Vice President, J.P. Morgan Chase Bank (from 1981 to 1990); Trustee, TT International U.S.A. Master and Feeder Trusts (four mutual funds) from 2000-2005	4

CGM MUTUAL FUND

<u>Name, Address and Age</u>	<u>Position Held and Length of Time Served</u>	<u>Principal Occupation During Past 5 Years and Other Directorships Held</u>	<u>Number of Funds in the CGM Funds Complex Overseen</u>
Mark W. Holland age 57	Trustee since 2004	President, Wellesley Financial Advisors, LLC (since 2003); formerly Vice President and Chief Operating Officer, Fixed Income Management, Loomis, Sayles & Company, L.P.; formerly Director, Loomis, Sayles & Company, L.P. (from 1999 to 2002)	4
James Van Dyke Quereau, Jr. age 58	Trustee since 1993	Managing Partner and Director, Stratton Management Company (investment management); Director and Vice President, Semper Trust Co.	4
J. Baur Whittlesey age 60	Trustee since 1990	Member, Ledgewood, P.C. (law firm)	4
Officers			
G. Kenneth Heebner* age 66	Vice President since 1990	Co-founder and Employee, CGM; Controlling Owner, Kenbob, Inc. (general partner of CGM)	4
Robert L. Kemp* age 74	President since 1990	Co-founder and Employee, CGM; Non-voting Owner, Kenbob, Inc. (general partner of CGM)	4
David C. Fietze* age 37 address: 38 Newbury Street Boston, Massachusetts 02116	Chief Compliance Officer since 2004	Employee – Legal counsel, CGM; formerly counsel, Bartlett Hackett Feinberg, P.C.	4
Kathleen S. Haughton* age 46 address: 38 Newbury Street Boston, Massachusetts 02116	Vice President since 1992 and Anti-Money Laundering Compliance Officer since 2002	Employee – Investor Services Division, CGM	4
Jem A. Hudgins* age 43	Treasurer since 2004	Employee – CGM	4
Leslie A. Lake* age 61	Vice President and Secretary since 1992	Employee – Office Administrator, CGM	4
Martha I. Maguire* age 51	Vice President since 1994	Employee – Funds Marketing, CGM	4
Mary L. Stone* age 62	Assistant Vice President since 1990	Employee – Portfolio Transactions, CGM	4